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DIRECTORATE OF  
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## CONTENTS

SOUTH VIETNAM: Misgivings about Thieu's election policy. (Page 1)

INTERNATIONAL ECONOMIC DEVELOPMENTS: The British Treasury has imposed new restrictions on foreign accounts. (Page 2)

MALTA-NATO: Current offer stands (Page 3)

SECRET

SECRET

SOUTH VIETNAM: Military and government leaders reportedly are less than unanimous in their support of President Thieu's election policy.

25X1

[redacted] Thieu met with senior South Vietnamese Army generals last week to seek assurances that they would back his plan to go ahead with the presidential election on 3 October as scheduled. Although most of the generals readily pledged their support, some were noncommittal. A number of generals asserted that they were military men, not politicians, but would carry out Thieu's orders. Several felt Vice President Ky's exclusion from the race had been unfair, and at least one--Military Region I Commanding General Lam--asserted that senior military men should be allowed to meet with Ky, who also was a military colleague. Lam did express full agreement with Thieu's policy, however.

Thus far, Thieu has given no indication that he is considering a change in policy. On 29 August, in fact, he publicly reiterated his intention to hold the election on schedule.

Ky has also been meeting with some of the generals, and he might be encouraged to oppose Thieu more vigorously if he saw cracks in the President's military support. Ky, who has shown a tendency to overrate his own support in the past, met recently with the chief of the Joint General Staff, General Vien, and came away optimistic that Vien would support him in any future political moves. Vien, however, told Ky the army's job was to stay out of politics.

\* \* \* \*

Progovernment candidates are winning the bulk of the seats in Sunday's Lower House elections. Unofficial returns indicate that a majority of the deputies in the new 159-member House will be responsive to Thieu. Candidates backed by the opposition An Quang Buddhists did well in the northern provinces--their main center of strength. [redacted]

25X1

25X1

31 Aug 71

Central Intelligence Bulletin

1

INTERNATIONAL ECONOMIC DEVELOPMENTS: The British Treasury has imposed new restrictions on foreign accounts to inhibit the possible inflow of speculative funds.

Starting today, British banks will stop paying interest on additional deposits in sterling accounts of nonresidents, and other financial institutions are prohibited from accepting further nonresident deposits. The extent to which authorized banks may convert foreign currency deposits into sterling is also being restricted and permission is being withdrawn for the sale to nonresidents of certain sterling assets.

The new restrictions, which took currency dealers by surprise, reflect London's unwillingness to see any further substantial appreciation of the pound, now trading at a premium of about three percent, or to risk stimulating domestic inflation by lowering the bank rate, which is six percent.

Meanwhile, on the Tokyo foreign exchange market yesterday the dollar held relatively steady and the yen has appreciated 5.5 percent since it was floated on Saturday.

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MALTA-NATO: The North Atlantic Council, meeting yesterday, failed to come up with additional contributions to the UK-NATO offer to Malta for continued British base rights on the island. Italy was prepared to raise its pledge if others--including the UK--did likewise, but the British said they were "irrevocably" opposed to offering more themselves and would not press their NATO partners for an increase in the present offer of \$20.4 million in cash and aid. The UK-NATO offer, plus prospective bilateral aid packages from some NATO members, still falls short of Valletta's expectations. Prime Minister Mintoff, however, apparently still desires to reach an accord with the British in order to avoid entanglements with either Libya or the USSR that would compromise Malta's independence. [REDACTED]

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31 Aug 71

Central Intelligence Bulletin

3

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